

UNDER SECRETARY OF STATE
FOR MANAGEMENT
WASHINGTON

February 25, 1985

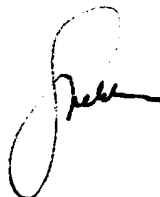
TO: Mr. Robert W. Magee, Director of Personnel
FROM: Sheldon J. Kryz, Executive Assistant

Bob,

These are the charts which I discussed with you last week. I had mentioned that the steepest decline occurred between the ages of 46 to 55. As you will note, I rather understated how steep the decline really is (i.e. 19% decline between the ages of 46 to 57).

It was a very productive meeting which I hope will be repeated very soon.

Warm regards

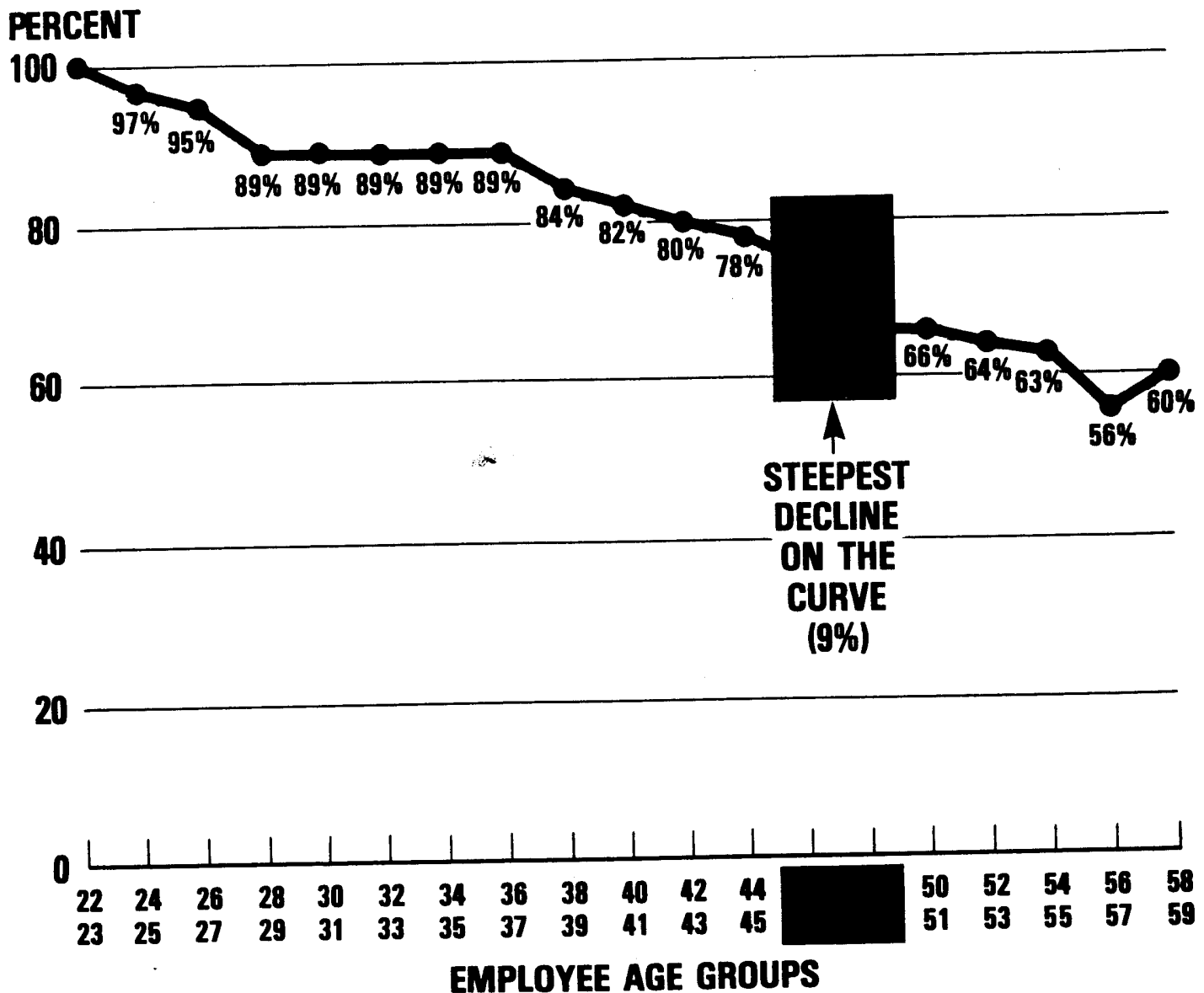




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The steepest decline on the curve in the attached graph no. 1 occurs between the ages of 46 through 49 i.e. this represents the largest increase in the number of employees who are no longer medically cleared for full Foreign Service duty. After age 50, these employees who are in poorer health retire and the decline in the curve lessens. At age 56-57 the curve slopes upward since 56 is the average age of retirement in the Foreign Service. Between the ages of 46 and 57, there is a 19% decline on the curve.

"PERCENTAGE OF FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN AGE GROUPS FROM 22 TO 59 (IN 2 YEAR COHORTS) WHO ARE CURRENTLY MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES (EXCLUDES SPOUSES AND DEPENDENTS)"

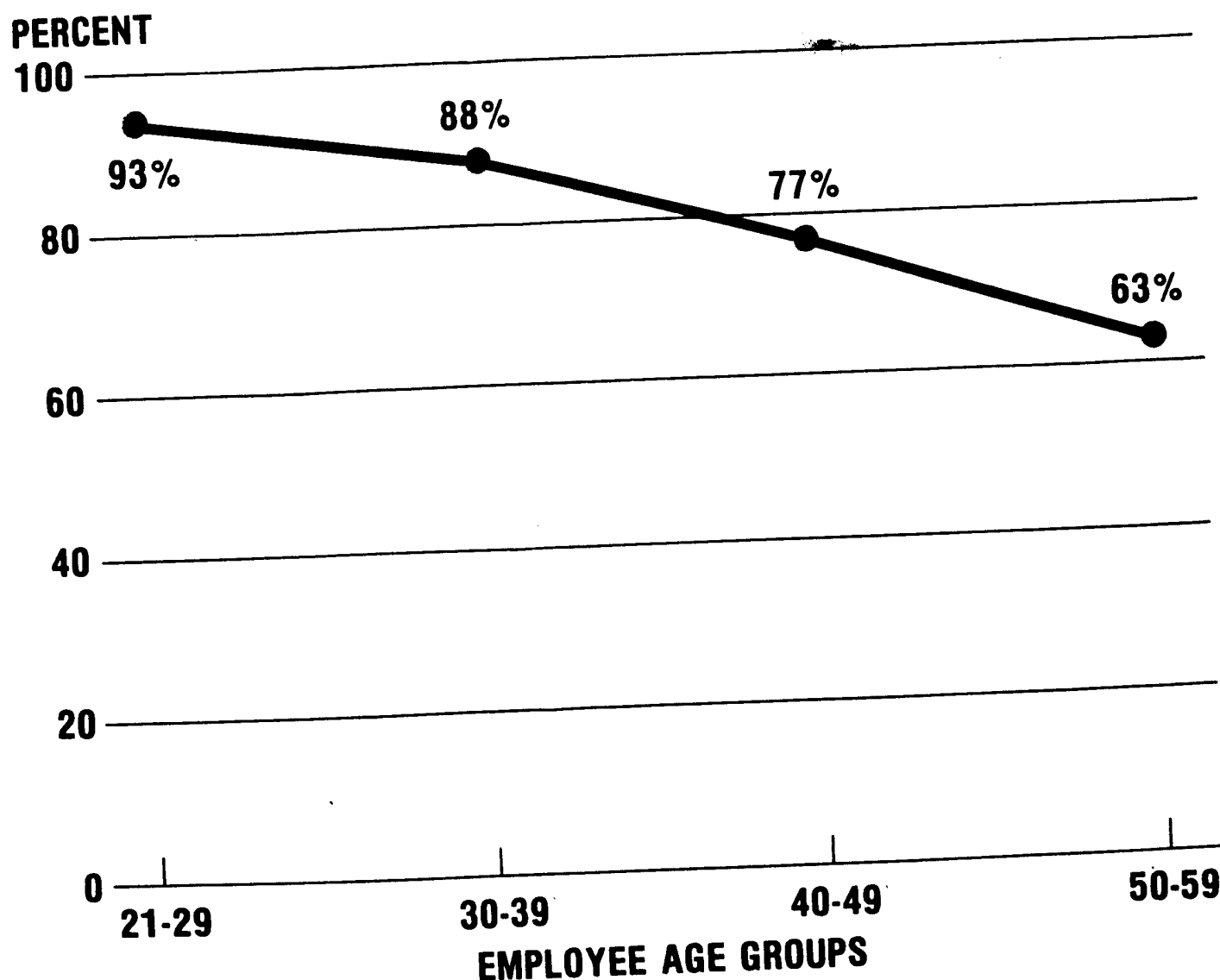




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The declining curve on the attached graph no. 2 represents a 30% decrease in the relative ability to receive a medical clearance for full Foreign Service duty when the age group 21-29 is compared to the age group 50-59. (This graph compares employees only).

**"PERCENTAGE OF FOREIGN SERVICE AMERICAN
(STATE DEPARTMENT) EMPLOYEES IN AGE
GROUPS FROM 21 TO 59 WHO ARE CURRENTLY
MEDICALLY CLEARED FOR FULL FOREIGN SERVICE
DUTY"**

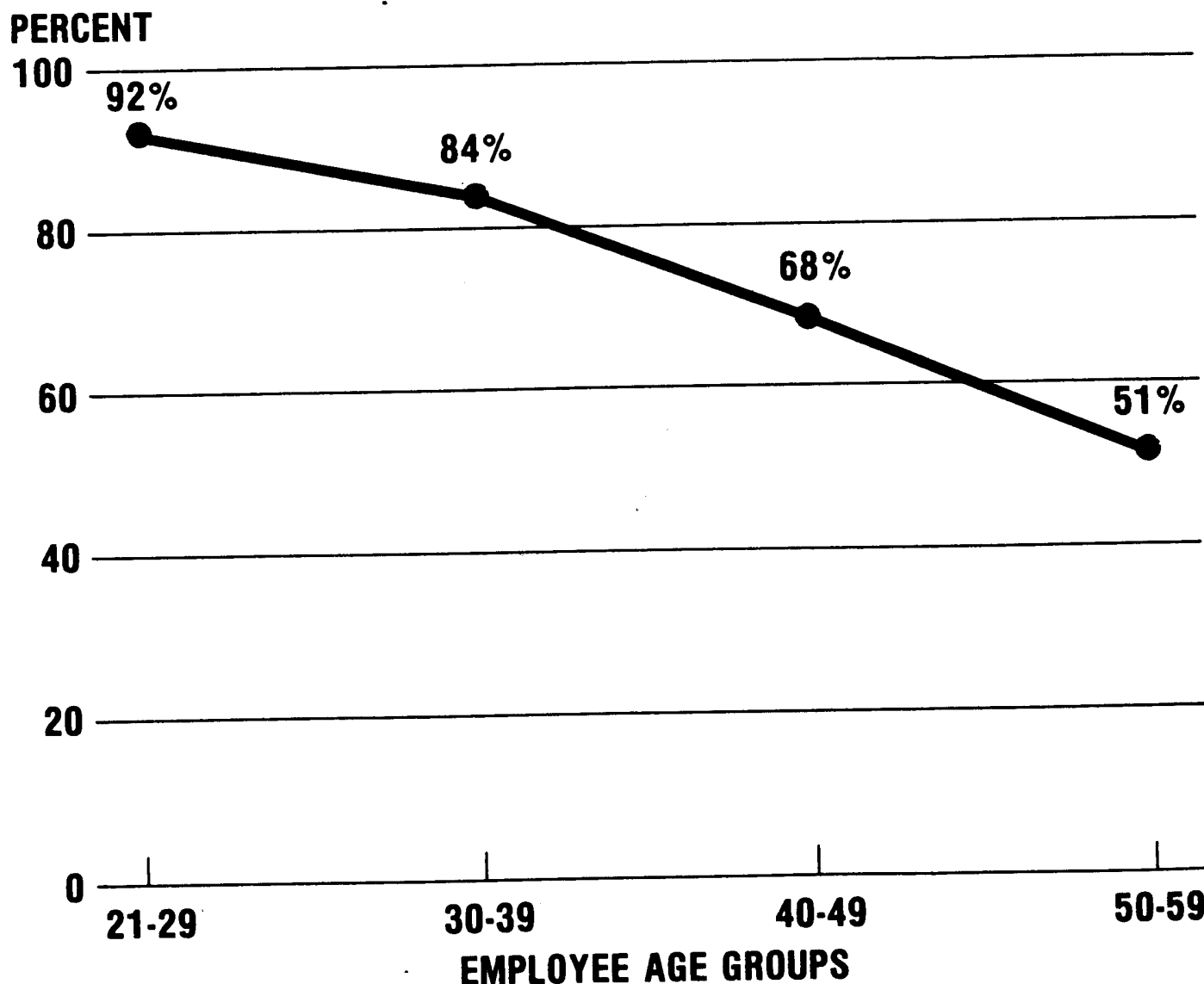




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The declining curve on the attached graph no. 3 represents a 41% decrease in the relative ability to receive a medical clearance for full Foreign Service duty when the age group 21-29 is compared to the age group 50-59. (This graph includes spouses and counts spouses in the same age group as the employee).

**“PERCENTAGE OF FOREIGN SERVICE AMERICAN
(STATE DEPARTMENT) EMPLOYEES IN AGE
GROUPS FROM 21 TO 59 WHO ARE CURRENTLY
MEDICALLY CLEARED FOR FULL FOREIGN SERVICE
DUTY AND WHOSE SPOUSE (IF APPLICABLE) IS
ALSO MEDICALLY CLEARED FOR FULL FOREIGN
SERVICE DUTY”**

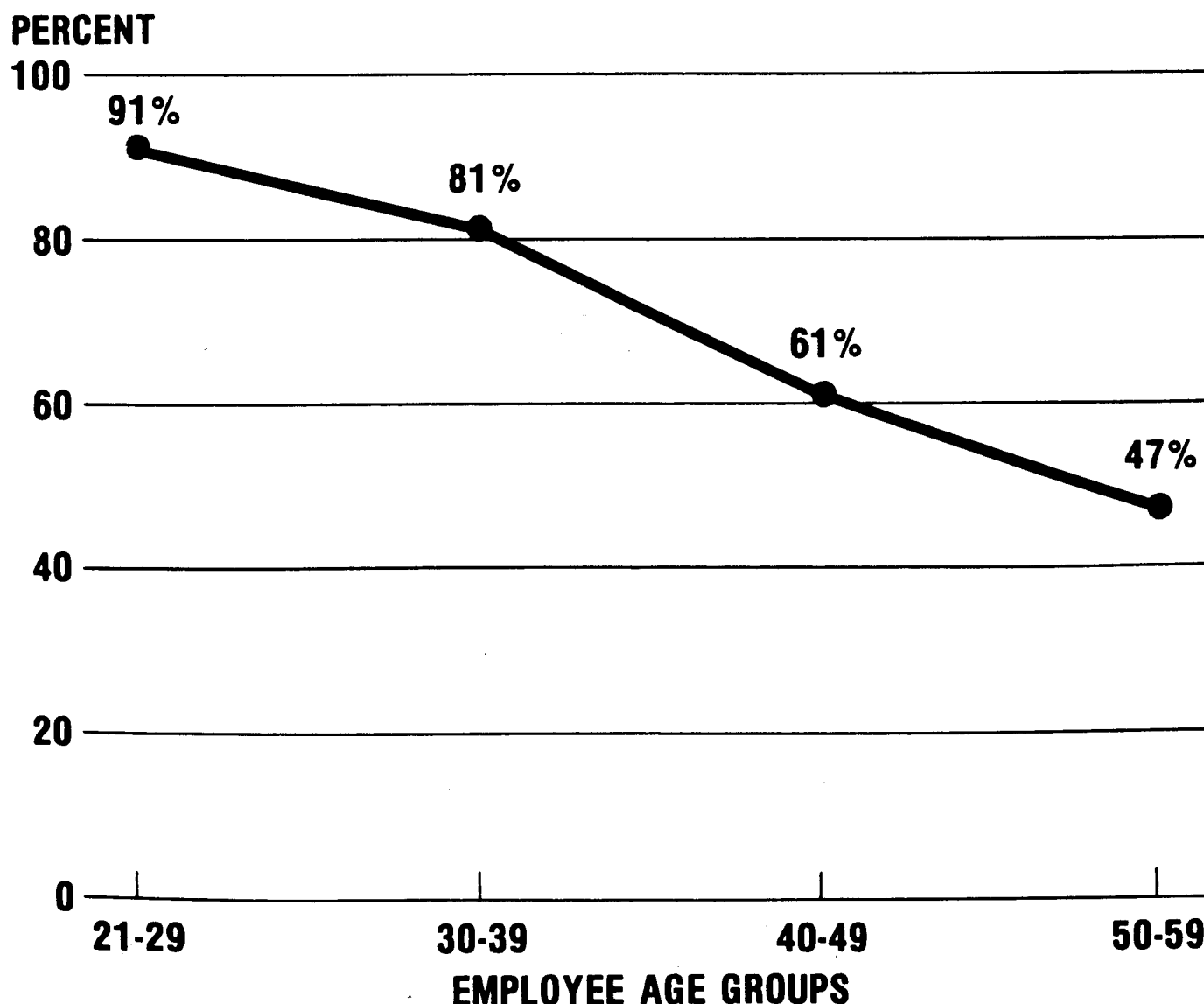




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The declining curve on the attached graph no. 4 represents a 44% decrease in the relative ability to receive a medical clearance for full Foreign Service duty when the age group 21-29 is compared to the age group 50-59. (This graph includes spouses as well as other dependents and counts them in the same population group where the employee falls because of the employee's age).

**“PERCENTAGE OF FOREIGN SERVICE AMERICAN
(STATE DEPARTMENT) EMPLOYEES IN AGE GROUPS
FROM 21 TO 59 WHO ARE CURRENTLY MEDICALLY
CLEARED FOR FULL FOREIGN SERVICE DUTY AND
WHOSE SPOUSE AND/OR DEPENDENTS (IF
APPLICABLE) ARE ALSO MEDICALLY CLEARED
FOR FULL FOREIGN SERVICE DUTY”**

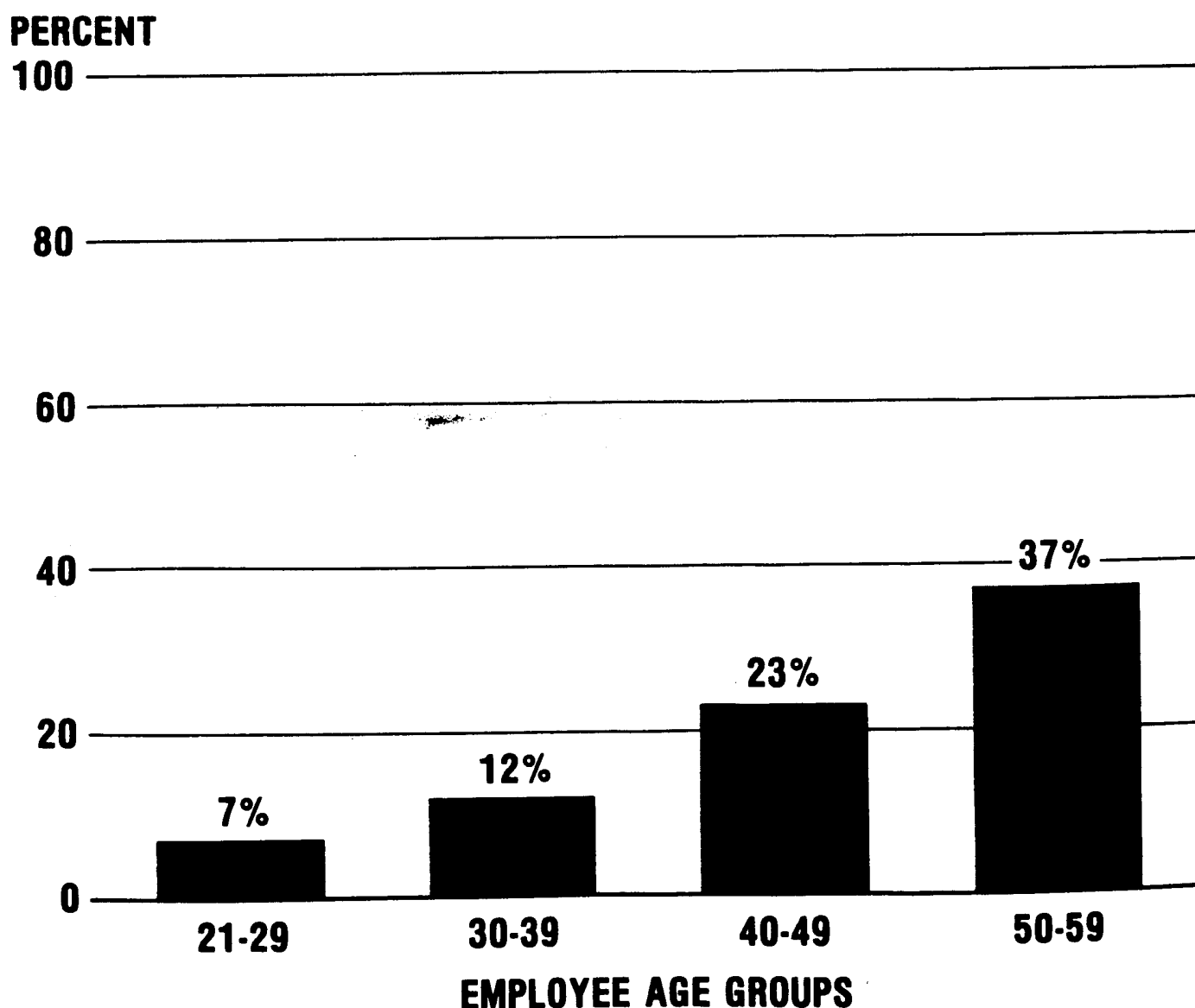




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Graph no. 5 is the reciprocal
of graph no. 2.

**“PERCENTAGE OF FOREIGN SERVICE AMERICAN
(STATE DEPARTMENT) EMPLOYEES IN AGE GROUPS
FROM 21 TO 59 WHO ARE CURRENTLY NOT
MEDICALLY CLEARED FOR FULL FOREIGN SERVICE
DUTY”**





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Graph no. 6 is the reciprocal
of graph no. 3.

**"PERCENTAGE OF FOREIGN SERVICE AMERICAN
(STATE DEPARTMENT) EMPLOYEES IN AGE GROUPS
FROM 21 TO 59 WHO ARE CURRENTLY NOT
MEDICALLY CLEARED FOR FULL FOREIGN SERVICE
DUTY THEMSELVES OR WHOSE SPOUSE (IF
APPLICABLE) IS NOT MEDICALLY CLEARED FOR
FULL FOREIGN SERVICE DUTY"**

PERCENT

100

80

60

40

20

0

21-29

30-39

40-49

50-59

EMPLOYEE AGE GROUPS

8%

16%

32%

49%



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Graph no. 7 is the reciprocal
of graph no. 4.

**“PERCENTAGE OF FOREIGN SERVICE AMERICAN
(STATE DEPARTMENT) EMPLOYEES IN AGE GROUPS
FROM 21 TO 59 WHO ARE CURRENTLY NOT
MEDICALLY CLEARED FOR FULL FOREIGN SERVICE
DUTY THEMSELVES OR WHOSE SPOUSE/DEPENDENT
(IF APPLICABLE) IS NOT MEDICALLY CLEARED FOR
FULL FOREIGN SERVICE DUTY”**

PERCENT

100

80

60

40

20

0

9%

21-29

19%

30-39

39%

40-49

53%

50-59

EMPLOYEE AGE GROUPS



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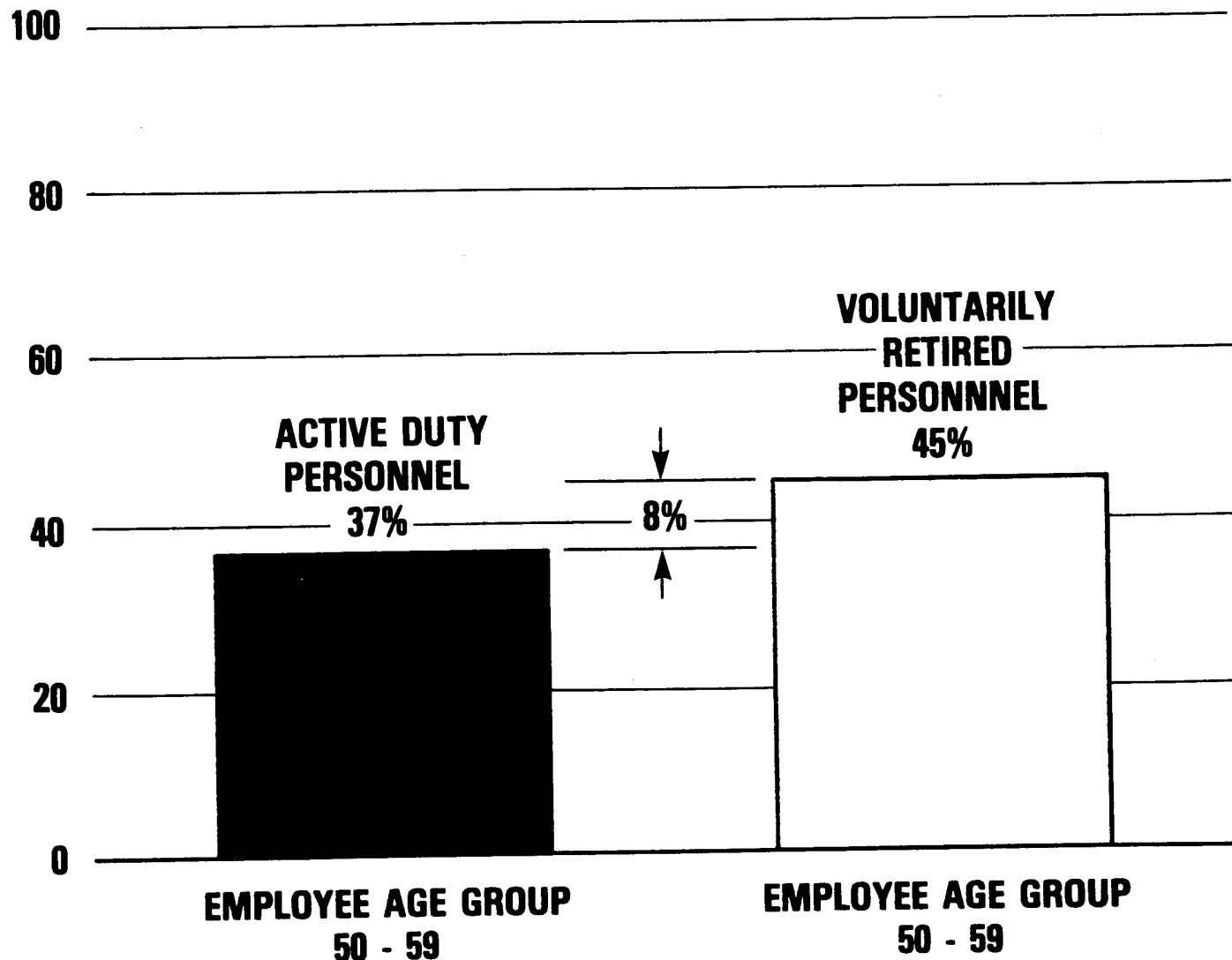
Graph no. 8 establishes the
framework for the flow through
personnel model in graph no. 9.

"COMPARISON OF ACTIVE DUTY FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES ONLY IN THE AGE GROUP FROM 50-59 WHO ARE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY

WITH

VOLUNTARILY RETIRED FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES ONLY IN THE AGE GROUP FROM 50-59 WHO WERE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON RETIREMENT IN 1983 OR 1984"

PERCENT





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Graph no. 9 represents a flow through personnel system wherein 40% of retired personnel who are not cleared for full Foreign Service duty are replaced by younger employees who are medically cleared for full Foreign Service duty.

"COMPARISON OF VOLUNTARILY RETIRED FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES ONLY IN THE AGE GROUP FROM 50-59 WHO WERE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON RETIREMENT IN 1983 OR 1984

WITH

ENTRY LEVEL FOREIGN SERVICE PERSONNEL WHO REPLACE THEM IN THE FOREIGN SERVICE FLOW THROUGH PERSONNEL SYSTEM AND WHO ARE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON ENTRY INTO THE SYSTEM AT A YOUNGER AGE"

PERCENT

100

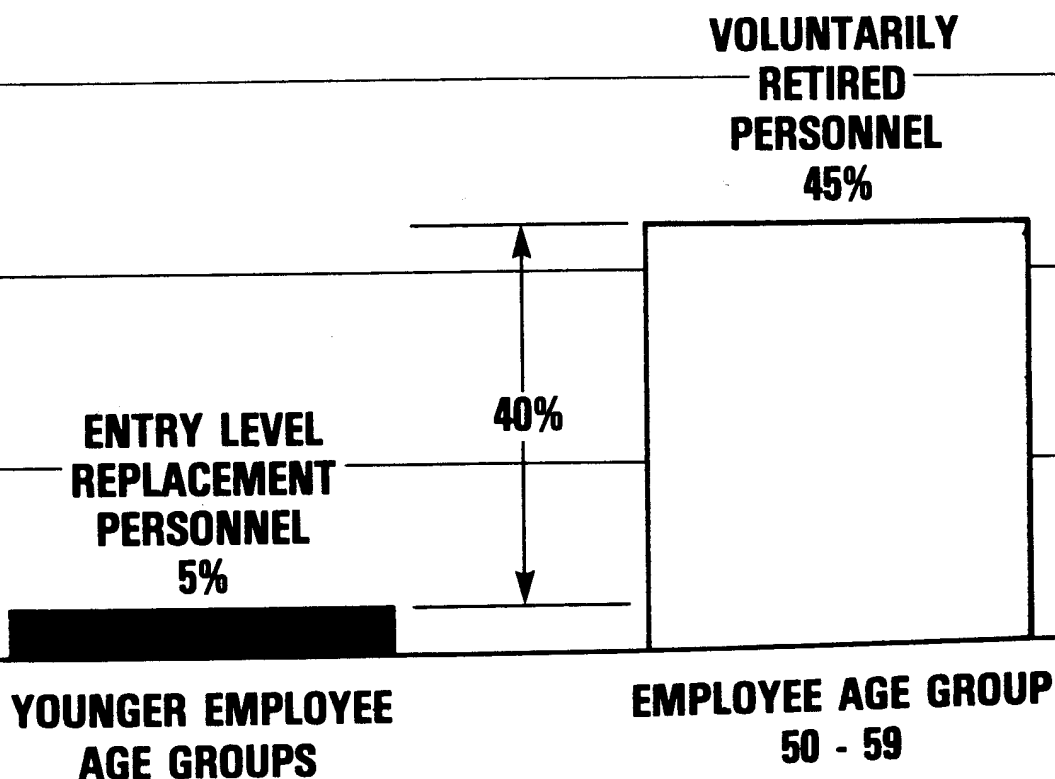
80

60

40

20

0





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Graph no. 10 establishes the
framework for the flow through
personnel model in graph no. 11.

"COMPARISON OF ACTIVE DUTY FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN THE AGE GROUP FROM 50-59 WHO ARE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES OR WHOSE SPOUSE (IF MARRIED) IS NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY

WITH

VOLUNTARILY RETIRED FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN THE AGE GROUP FROM 50-59 WHO WERE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES OR WHOSE SPOUSE (IF MARRIED) WAS NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON RETIREMENT IN 1983 OR 1984"

PERCENT

100

80

60

40

20

0

**ACTIVE DUTY
PERSONNEL
49%**

5%

**VOLUNTARILY
RETIRED
PERSONNEL
54%**

**EMPLOYEE AGE GROUP
50 - 59**

**EMPLOYEE AGE GROUP
50 - 59**



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Graph no. 11 represents a flow through personnel system wherein 49% of retired personnel (or their spouses) who are not cleared for full Foreign Service duty are replaced by younger employees (or their spouses) who are medically cleared for full Foreign Service duty.

"COMPARISON OF VOLUNTARILY RETIRED FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN THE AGE GROUP FROM 50-59 WHO WERE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES OR WHOSE SPOUSE (IF MARRIED) WAS NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON RETIREMENT IN 1983 OR 1984

WITH

ENTRY LEVEL FOREIGN SERVICE PERSONNEL WHO REPLACE THEM IN THE FOREIGN SERVICE FLOW THROUGH PERSONNEL SYSTEM AND WHO ARE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON ENTRY INTO THE SYSTEM AT A YOUNGER AGE (INCLUDES SPOUSES IF MARRIED)"

PERCENT

100

80

60

40

20

0

**VOLUNTARILY
RETIRED
PERSONNEL
54%**

**ENTRY LEVEL
REPLACEMENT
PERSONNEL
5%**

49%

**YOUNGER EMPLOYEE
AGE GROUPS**

**EMPLOYEE AGE GROUP
50 - 59**



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Graph no. 12 establishes the
framework for the flow through
personnel model in graph no. 13.

"COMPARISON OF ACTIVE DUTY FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN THE AGE GROUP FROM 50-59 WHO ARE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES OR WHOSE SPOUSE/DEPENDENT (IF APPLICABLE) IS NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY

WITH

VOLUNTARILY RETIRED FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN THE AGE GROUP FROM 50-59 WHO WERE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES OR WHOSE SPOUSE/DEPENDENT (IF APPLICABLE) WAS NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON RETIREMENT IN 1983 OR 1984"

PERCENT

100

80

60

40

20

0

**ACTIVE DUTY
PERSONNEL
53%**

3%

**VOLUNTARILY
RETIRED
PERSONNEL
56%**

**EMPLOYEE AGE GROUP
50 - 59**

**EMPLOYEE AGE GROUP
50 - 59**



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Graph no. 13 represents a flow through personnel system wherein 51% of retired personnel (or their spouses/other dependents) who are not cleared for full Foreign Service duty are replaced by younger employees (or their spouses/other dependents) who are medically cleared for full Foreign Service duty.

"COMPARISON OF VOLUNTARILY RETIRED FOREIGN SERVICE AMERICAN (STATE DEPARTMENT) EMPLOYEES IN THE AGE GROUP FROM 50-59 WHO WERE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY THEMSELVES OR WHOSE SPOUSE/DEPENDENT (IF APPLICABLE) WAS NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON RETIREMENT IN 1983 OR 1984

WITH

ENTRY LEVEL FOREIGN SERVICE PERSONNEL WHO REPLACE THEM IN THE FOREIGN SERVICE FLOW THROUGH PERSONNEL SYSTEM AND WHO ARE NOT MEDICALLY CLEARED FOR FULL FOREIGN SERVICE DUTY UPON ENTRY INTO THE SYSTEM AT A YOUNGER AGE (INCLUDES SPOUSES/DEPENDENTS (IF APPLICABLE))"

PERCENT

100

80

**VOLUNTARILY
RETIRED
PERSONNEL**

56%

60

51%

40

**ENTRY LEVEL
REPLACEMENT
PERSONNEL**

5%

20

0

**YOUNGER EMPLOYEE
AGE GROUPS**

**EMPLOYEE AGE GROUP
50 - 59**

C O N F I D E T I A L

19 February 1985

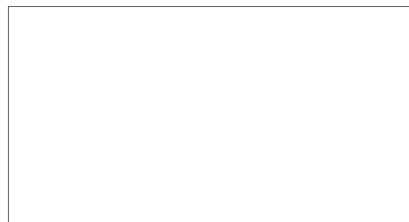
CONTENTS

EMPLOYEES WHO ARE ELIGIBLE OR WILL BECOME ELIGIBLE TO RETIRE PRIOR TO 31 DECEMBER 1985

1. CIARDS BY CAREER SERVICE
2. CIARDS - SIS-1 AND ABOVE AND GS-14 AND GS-15
3. CIARDS BY GRADE AND CAREER SERVICE
4. CIVIL SERVICE RETIREMENT BY CAREER SERVICE
5. CIVIL SERVICE - SIS-1 AND ABOVE AND GS-14 AND GS-15
6. CIVIL SERVICE BY GRADE AND CAREER SERVICE

25X1

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C O N F I D E T I A L



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REPORTS
AND ANALYSES

11 FEB 1985

Note for D/PERS

Bob,

Attached is a package containing the following retirement data:

(a) statistics provided by Ed Hustead projecting annuity changes if certain FY-86 budget proposals implemented. Some of our analyses of this data is included.

(b) charts showing potential annuity loss if sick leave credit eliminated

(c) charts which we prepared showing impact on annuities if 5% reduction for age imposed using current dollar figures,

(d) a paper on impacts of the FY-86 Budget Proposals prepared by

S

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Statistical ~~Analysis~~
Analysis

- Analyses of the attached Ed Hustead data:
 - Greatest and most damaging impact comes from 5% reduction for age
 - Loss of sick leave credit is not as significant as high-3 to high-5
 - Do not believe loss of sick leave and high-3 to high-5 would of themselves create mass resignations.
 - Loss of sick leave could persuade individuals currently eligible for retirement to leave sooner than planned
 - We would see the following impact if 5% reduction-for-age imposed:

CIARDS

- Officer (Age 40 with 15 years service) - Anticipate marketable employee would leave. Benefit so significantly reduced, employee could take money in retirement system and go for higher pay and better benefits (insurance, etc.) industry. Those who do stay would stay significantly longer than current average retirement age (53) to get a decent annuity. - DOUBLE WHAMMY!

- Officer (Age 45 with 20 years service) - strong potential marketable employee would leave; if employee doesn't leave, would stay beyond current average retirement age (53) to gain a decent annuity.

CIVIL SERVICE

- Officer (Age 45 with 20 years of service) - Marketable employees more likely to leave. Again benefit reduced so significantly employee would be likely to take risk on outside. Those who stay would remain significantly beyond current average retirement age to get decent annuity.
(AGAIN-DOUBLE WHAMMY!!)
- Officer (Age 50 with 20 years of service) - Would probably stay but for significantly longer than current average retirement age (57)

GENERAL COMMENTS

- The marketable employee i.e. the one we most want to retain, is the one we are most likely to lose.
- Further, under these scenarios we would have extreme difficulty recruiting and retaining qualified replacements.

The attached tables show the effect of proposed retirement plan changes on typical employees now in CSRS and CIARDS.

The benefit is projected for ten years to assume retirement in 1995. Benefits payable under the current systems are compared to the benefits resulting from the following reductions:

Change the high-three pay base to high-five,

Reduce the CSRS benefit by 5% for each year under age 65 at retirement; and the CIARDS benefit by 5% for each year under age 60,

Eliminate the credit for unused sick leave.

The benefit which would result if all three reductions is also shown.

The benefit is compared to the current contributions and the annuity that could be purchased by those contributions if the individual were to leave today, invest the refund, and use those funds to purchase an annuity at the retirement age.

The salary projections were based on current earnings of an average individual in each grade. These were assumed to grow by 5% each year for the next ten years. This assumption anticipates moderate general wage growth and within grade increases. Promotions were not assumed. If promotions were to occur, the benefits, and reductions would be larger.

Other assumptions were that the average interest rate will be 6%, the average inflation rate will be 4% and that unused sick leave is accumulated at seven days a year.

Table 1

Civil Service Retirement System Benefits

Effect of Various Changes in Formula

Employee now age 45 with 20 years of service

Retiring at age 55 with 30 years of service

Grade	9	11	15	SES
Benefit in current system	19568	23832	42474	56142
Benefit reduced for				
High-5 pay base	18666	22733	40516	53553
5% under age 65	9784	11916	21237	28071
No sick leave credit	18942	23069	41115	54345
All three	9034	11003	19610	25920
Current contributions	16469	20057	35747	47250
Benefit purchased at age 55 by contributions	1476	1798	3204	4235
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	252,816	307,896	548,736	749,328

Table 2**Civil Service Retirement System Benefits****Effect of Various Changes in Formula****Employee now age 50 with 20 years of service****Retiring at age 60 with 30 years of service**

Grade	9	11	15	SES
Benefit in current system	19568	23832	42474	56142
Benefit reduced for				
High-5 pay base	18666	22733	40516	53553
5% under age 65	17122	20853	37164	49124
No sick leave credit	18942	23069	41115	54345
All three	15811	19257	34320	45344
Current contributions	16469	20057	35747	47250
Benefit purchased at age 60 by contributions	1681	2048	3650	4824
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	75126	91496	163067	215542

Table 3

CIA Retirement System Benefits
Effect of Various Changes in Formula
 Employee now age 45 with 20 years of service
 Retiring at age 55 with 30 years of service

Grade	9	11	15	SIS
Benefit in current system	20873	25420	45305	59884
Benefit reduced for				
High-5 pay base	19910	24248	43217	57123
5% under age 60	18263	22242	39641	52398
No sick leave credit	20246	24658	43946	58088
All three	16901	20582	36683	48488
Current contributions	16469	20057	35747	47250
Benefit purchased at age 55 by contributions	1476	1798	3204	4235
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	95327	116093	206908	273504

Table 4

CIA Retirement System Benefits

Effect of Various Changes in Formula

Employee now age 40 with 15 years of service

Retiring at age 50 with 25 years of service

Grade	9	11	15	SIS
Benefit in current system	17394	21184	37755	49904
Benefit reduced for				
High-5 pay base	16592	20207	36014	47603
5% under age 60	8697	10592	18877	24952
No sick leave credit	16872	20548	36622	48407
All three	8047	9800	17467	23087
Current contributions	14351	17478	31151	41175
Benefit purchased at age 50 by contributions	1147	1397	2490	3292
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	261,716	318,752	568,064	750,876

ESTIMATE OF ANNUITY LOSS
DUE TO LOSS OF SICK LEAVE CREDIT

CIARDS

(IF CURRENT S/L BALANCE = 18 MONTHS THEN
ANNUITY LOSS = 3% PER YEAR IF 12 MONTHS THEN 2%)

	Age 50 w/25 yrs service (life expectancy = 28)		Age 55 w/30 yrs service (life expectancy = 28)	
	3%	2%	3%	2%
<u>SIS</u>				
Annual Loss	\$ 924	\$ 616	\$ 1,100	\$ 730
Lifetime Loss	25,878	17,252	26,617	17,745
(Current Annuity)	(\$30,808)		(\$36,060)	
<u>GS-15</u>				
Annual Loss	\$ 858	\$ 572	\$ 1,030	\$ 686
Lifetime Loss	24,035	16,023	24,721	16,481
(Current Annuity)	(\$28,614)		(\$34,336)	
<u>GS-13</u>				
Annual Loss	\$ 617	\$ 411	\$ 741	\$ 494
Lifetime Loss	17,292	11,528	17,786	11,857
(Current Annuity)	(\$20,586)		(\$24,703)	
<u>GS-11</u>				
Annual Loss	\$ 433	\$ 288	\$ 519	\$ 346
Lifetime Loss	12,133	8,089	12,479	8,319
(Current Annuity)	(\$14,445)		(\$17,333)	
<u>GS-09</u>				
Annual Loss	\$ 358	\$ 238	\$ 420	\$ 286
Lifetime Loss	10,027	6,684	10,313	6,875
(Current Annuity)	(\$11,937)		(\$14,324)	

ESTIMATE OF ANNUITY LOSS
DUE TO LOSS OF SICK LEAVE CREDIT

CSRS

(IF CURRENT S/L BALANCE = 18 MONTHS THEN
ANNUITY LOSS = 3% PER YEAR IF 12 MONTHS THEN 2%)

	Age 55 w/30 yrs service (life expectancy = 24)		Age 60 w/35 yrs service (life expectancy = 20)	
	3%	2%	3%	2%
<u>SIS</u>				
Annual Loss	\$ 1,039	\$ 693	\$ 1,224	\$ 816
Lifetime Loss	24,953	16,635	24,492	16,328
(Current Annuity)	(\$34,658)		(\$40,820)	
<u>GS-15</u>				
Annual Loss	\$ 965	\$ 643	\$ 1,137	\$ 758
Lifetime Loss	23,176	15,451	22,747	15,165
(Current Annuity)	(\$32,190)		(\$37,013)	
<u>GS-13</u>				
Annual Loss	\$ 694	\$ 463	\$ 818	\$ 545
Lifetime Loss	16,674	11,116	16,365	10,910
(Current Annuity)	(\$23,159)		(\$27,276)	
<u>GS-11</u>				
Annual Loss	\$ 487	\$ 325	\$ 574	\$ 382
Lifetime Loss	11,700	7,800	11,483	7,655
(Current Annuity)	(\$16,250)		(\$19,139)	
<u>GS-09</u>				
Annual Loss	\$ 402	\$ 268	\$ 474	\$ 316
Lifetime Loss	9,668	6,445	9,490	6,326
(Current Annuity)	(\$13,429)		(\$15,817)	

**Examples of Retirement Penalties For Early Retirement
Under FY 86 Budget Proposals**

CIARDS

**Annuities Would Be Reduced Under Budget
Proposals As Follows If Employee:**

Age in 1985	Retires Age 50	Age 51	Age 55	Age 60
50 or older	None	0	0	0
49	5%	4.5%	2.5%	0
48	10%	9%	5%	0
47	15%	13.5%	7.5%	0
46	20%	18%	10%	0
45	25%	22.5%	12.5%	0
44	30%	27%	15%	0
43	35%	31.5%	17.5%	0
42	40%	36%	20%	0
41	45%	40.5%	22.5%	0
40 or younger	50%	45%	25%	0

**Examples Of Retirement Penalties For Early Retirement
Under FY 86 Budget Proposals**

CSRS

Age in 1985	Age 55	Age 56	Age 60	Age 65
55 or older	None	0	0	0
54	5%	4.5%	2.5%	0
53	10%	9%	5%	0
52	15%	13.5%	7.5%	0
51	20%	18%	10%	0
50	25%	22.5%	12.5%	0
49	30%	27.9%	15%	0
48	35%	31.5%	17.5%	0
47	40%	36%	20%	0
46	45%	40.5%	22.5%	0
45 or younger	50%	45%	25%	0

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of SIS-2 (\$61,615)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 50 w <u>25 years serv.</u>	Age 51 w <u>26 years serv.</u>	Age 55 w <u>30 years serv</u>
Current CIARDS	\$30,808	\$32,040	\$36,969
Phase-In Budget Proposals	\$23,106	\$24,831	\$32,348
Difference - Per Year	\$ 7,702	\$ 7,209	\$ 4,621
Per Lifetime	\$215,656	\$194,643	\$110,904
Percent Reduction	25%	22.5%	12.5%

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-15/5 (\$57,227)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 50 w <u>25 years serv.</u>	Age 51 w <u>26 years serv.</u>	Age 55 w <u>30 years serv</u>
Current CIARDS	\$28,614	\$29,758	\$34,336
Phase-In Budget Proposals	\$21,461	\$23,062	\$30,044
Difference -			
Per Year	\$ 7,153	\$ 6,696	\$ 4,292
Per Lifetime	\$200,284	\$180,792	\$103,008
Percent Reduction	25%	22.5%	12.5%

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-13/5 (\$41,172)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 50 w <u>25 years serv.</u>	Age 51 w <u>26 years serv.</u>	Age 55 w <u>30 years serv</u>
Current CIARDS	\$20,586	\$21,409	\$24,703
Phase-In Budget Proposals	\$15,440	\$16,592	\$21,615
Difference			
Per Year	\$ 5,146	\$ 4,817	\$ 3,088
Per Lifetime	\$144,088	\$130,059	\$74,112
Percent Reduction	25%	22.5%	12.5%

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-11/5 (\$28,889)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 50 w <u>25 years serv.</u>	Age 51 w <u>26 years serv.</u>	Age 55 w <u>30 years serv</u>
Current CIARDS	\$14,445	\$15,022	\$17,333
Phase-In Budget Proposals	\$10,834	\$11,642	\$15,166
Difference			
Per Year	\$ 3,611	\$ 3,380	\$ 2,167
Per Lifetime	\$101,108	\$91,260	\$52,008
Percent Reduction	25%	22.5%	12.5%

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-9/5 (\$23,874)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 50 w <u>25 years serv.</u>	Age 51 w <u>26 years serv.</u>	Age 55 w <u>30 years serv</u>
Current CIARDS	\$11,937	\$12,414	\$14,324
Phase-In Budget Proposals	\$ 8,953	\$ 9,621	\$12,534
Difference -			
Per Year	\$ 2,984	\$ 2,793	\$ 1,790
Per Lifetime	\$83,552	\$75,411	\$42,960
Percent Reduction	25%	22.5%	12.5%

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of SIS-2 (\$61,615)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 55 w <u>30 years serv.</u>	Age 56 w <u>31 years serv.</u>	Age 60 w <u>35 years serv</u>
Current CSRS	\$34,658	\$35,891	\$40,820
Phase-In Budget Proposals	\$17,329	\$19,740	\$30,615
Difference-			
Per Year	\$17,329	\$16,151	\$10,205
Per Lifetime	\$415,896	\$371,473	\$204,100
Percent Reduction	50%	45%	25%

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-15/5 (\$57,227)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 55 w <u>30 years serv.</u>	Age 56 w <u>31 years serv.</u>	Age 60 w <u>35 years serv</u>
Current CSRS	\$32,190	\$33,334	\$37,913
Phase-In Budget Proposals	\$16,095	\$18,334	\$28,435
Difference-			
Per Year	\$16,095	\$15,000	\$ 9,478
Per Lifetime	\$386,280	\$345,000	\$189,560
Percent Reduction	50%	45%	25%

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-13/5 (\$41,172)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 55 w <u>30 years serv.</u>	Age 56 w <u>31 years serv.</u>	Age 60 w <u>35 years serv</u>
Current CSRS	\$23,159	\$23,983	\$27,276
Phase-In Budget Proposals	\$11,580	\$13,190	\$20,457
Difference-			
Per Year	\$11,579	\$10,793	\$ 6,819
Per Lifetime	\$277,896	\$248,239	\$136,380
Percent Reduction	50%	45%	25%

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-11/5 (\$28,880)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 55 w <u>30 years serv.</u>	Age 56 w <u>31 years serv.</u>	Age 60 w <u>35 years serv</u>
Current CSRS	\$16,250	\$16,828	\$19,130
Phase-In Budget Proposals	\$ 8,125	\$ 9,255	\$14,354
Difference-			
Per Year	\$ 8,125	\$ 7,573	\$ 4,785
Per Lifetime	\$195,000	\$174,179	\$95,700
Percent Reduction	50%	45%	25%

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-9/5 (\$23,874)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 55 w <u>30 years serv.</u>	Age 56 w <u>31 years serv.</u>	Age 60 w <u>35 years serv</u>
Current CSRS	\$13,429	\$13,907	\$15,817
Phase-In Budget Proposals	\$ 6,715	\$ 7,649	\$11,863
Difference-			
Per Year	\$ 6,714	\$ 6,258	\$ 3,954
Per Lifetime	\$161,136	\$143,934	\$79,080
Percent Reduction	50%	45%	25%

**Impacts of the FY-86 Budget Proposals
Relative to Retirement on the
Central Intelligence Agency**

I. Background

The President's FY-86 Budget proposes a number of major changes to the current provisions of the Civil Service Retirement System (CSRS) and the CIA Retirement and Disability System (CIARDS). These changes are as follows:

- a. Increase voluntary retirement age with no reduction in annuity for CIARDS participants from age 50 to 60 and CSRS from 55 to 65 with a 5% reduction for retirements under age 60 and 65 respectively.
- b. Change benefit calculation base from high-3 to high-5 average salary.
- c. Eliminate unused sick leave credit toward years of service (phased in over five years).
- d. Cost-of-living (COLA) freeze on January 1986 and reduced indexing for subsequent years.
- e. Modify current death-in-service survivor benefit rules to provide benefit only where there are children under age 16.

II. Introduction

The FY-86 Budget proposals relative to changing key features of current federal retirement systems were selected and designed

to reduce costs through the practical elimination of the economic feasibility of early retirement for most federal employees and acceptance that the work of government can be performed by a work-force of substantially advanced age and extended service.

The substantive implication of these effects on the Federal establishment at large may appear to be of no great significance or as beneficial to some observers.

The missions and functions of many domestic Federal departments and agencies are such that extended career employment is of either no managerial consequence or may be considered desirable and encouraged. In these circumstances, the retirement systems are perceived simply as mechanisms for providing financial security for those aging annuitants.

Such is not the case as regards the Central Intelligence Agency (CIA) whose unique missions and significantly different work force environments require effective managerial controls to maintain a relatively young and resilient employee cadre with provisions in its retirement systems that are fully supportive of Agency managerial requirements.

As Congress addresses these Budget Proposals, it is critically important that CIA's circumstances and needs are fully appreciated and practical to preclude inadvertent application of proposals that will inflict irreparable damage to the Agency's capacity to effectively carry out its responsibilities so vital to the national security interests of the United States.

III. Employee Working Environment and Work Force Management

Requisites of the Agency's Retirement Systems

A. General Overview

The intelligence work world of the 1980's continues to carry with it the heavy and unrelenting personal and managerial stresses and pressures long associated with foreign intelligence functions; but, in addition, presents a significant difference from earlier decades with the emergence and increasing impact of organized international terrorism under the sponsorship of governments hostile to the United States.

Risk of injury and capture of CIA personnel and recent grim increases in the loss of life, makes it painfully obvious that overseas service with the CIA is extremely dangerous and stressful to assignees and their families in "friendly" areas of the world and severely exacerbated in hostile environments. At the present, an anomalous situation exists in which employees serving overseas suffering the same threats, risks, and disadvantages are covered differently in their retirement benefits depending on whether they have accumulated sufficient qualifying service for the preferred CIARDS coverage.

This inequity is stark when, as previously noted, approximately 62% of CIA's overseas assignees are only covered by regular CSRS retirement benefits accorded ordinary Civil Service employees.

The increase, and regrettably the expectation, of the continuing incidence of CIA casualties abroad in the ongoing

future presents mounting security requirements to ensure protection of the identities of sensitive CSRS and CIARDS personnel and their families throughout their working careers and after retirement and in the secure handling of death and/or disability benefits outside of Agency channels. Specific problems are foreseen in assuring secure processing of casualty benefits for CSRS and CIARDS-covered employees hired on or after 1 January 1984 who may be eligible for Social Security benefits. Under current jurisdictional authorities, CSRS cases have to be handled by both the Office of Personnel Management (OPM) and the Social Security Administration to adjudicate claims and preclude the possibility of dual benefit payments. This results in the divulging of detailed information on the individual and circumstances of his or her death or disability to numerous non-Agency personnel. The risk of disclosure of security sensitive information to unauthorized individuals under these circumstances is of considerable concern to the CIA.

B. Working Environment Factors Applicable to All CIA Personnel

All CSRS and CIARDS CIA employees have access to security sensitive and highly classified national security information.

All employees, therefore, are subject to the same stringent security clearance standards. This includes polygraph examination as part of initial clearance processing and periodic repolygraph-

ing and reinvestigation at scheduled intervals throughout their careers, a requirement not required of regular Government Civil Service applicants and employees.

Civil Service and CIARDS employees assigned to certain activities and locations (both domestic and overseas) are required to live under cover for the duration of such assignments. Protection of such cover imposes unique social restrictions and additional security burdens on such individuals that are not required of Federal employees in "normal" Governmental employment.

All employees and former employees are required to submit all writings or outlines of oral presentations, including fiction, which deal with intelligence activities for prior review, modification and approval before publication.

Upon separation, all employees, including fully overt personnel, must receive security approval of descriptions of work performed while employed by CIA for use in subsequent job applications or interview. Security considerations may require deletions of substantial blocks of experience which would be attractive to future employers and thus hinder efforts to obtain other employment.

C. Work - Environment Factors and Work Force Management
Requisites Applicable to CIARDS-Type Employees

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2. Work - Management Requisites - CIARDS

As a management mechanism, CIARDS has been woven intimately into the personnel management system of the operational cadre and its supporting elements.

It has contributed most effectively in fulfilling such essential managerial needs as:

- ° Providing the Agency with a secure mechanism for the Administration of retirement affairs for members of the CIARDS.
- ° Enabling the Agency to recruit and retain the type and quality of work force essential to fulfilling critical work requirements and the capability for timely retirement of those individuals who have passed their peak performance. Mandatory retirement at age 60 and voluntary early retirement (50 with 20 years) without penalty reduction of benefits are essential contributors to meeting managerial objectives of keeping the operational cadre fully effective; permits the flow-through of new employees providing opportunities for employee developmental assignments; timely promotions; and, in meeting reduced personnel ceilings when required. If the mandatory and voluntary retirement eligibility ages were to be extended and current annuity levels reduced for CIARDS, severe problems would be created in terms of an unacceptable aging of the overall operational cadre; the diminution of vigor and adaptability

among its ranks, and increased difficulty in arranging cover. Effective management of the cadre would be severely weakened in terms of attracting recruits in the first place; the creation of severe blockages in essential flow-through assignment opportunities within the ranks; promotion; and timely retirement.

D. Working Environment Factors and Work Force Management Requisites Applicable to CSRS-Type Employees

1. Working Environment Factors - CSRS

Civil Service employees who are assigned in support of the Agency's operational activities abroad perform these services under the same extremely stressful and hazardous conditions as those individuals who have already qualified for CIARDS. Typically, these personnel serve approximately six to eight or more years before accruing sufficient qualifying service for the special provisions of CIARDS. During this period they and their dependents are covered under the regular Civil Service disability and death benefit provisions.

Employees, such as Intelligence Analysts and Administration Specialists, who spend their Agency careers solely in overt domestic assignments are not exposed to the special employment conditions encountered by CIARDS and pre-CIARDS personnel. However, these careerists are subject to the unique conditions common to all Agency employees cited previously in this report that are clearly a typical of "normal" domestic Federal employment.

In addition, the nature of current intelligence work with the vital national interest of its product, brings with it a continuing plethora and relentless volume of critical priorities, short deadlines, and serious national security consequence of error.

These factors create continuous stress, attrition of effectiveness, and patterns of burnout at ages somewhat older than those in the operational milieu; but, nonetheless at relatively young ages.

2. Work Force Management Requisites - CSRS

(a) CSRS Employees in Non-Operational Activities

Just as the special management requirements of the Agency's clandestine service have been effectively accommodated through the CIARDS mechanism, the provisions of Civil Service retirement, particularly the early optional retirement feature with non-reduced annuities at 55 with 30 years of service, have proven to be most effective tools for Agency managers in accommodating the different but equally important requirements served by CIA's analytical, scientific, and support cadres by providing:

- Recruitment inducement in the face of intense competition with the private sector (where higher salaries are frequently available) of the best expertise in a broad spectrum of professional disciplines and fields of specialization.

- ° Predictability of the projected patterns of the timing and numbers of future retirements that enable Agency managers to establish employee career development, progression, and replacement on a definitive basis.
- ° Retention of substantive analysts, scientific and technical experts, and administrative specialists through their most productive years with sustained currency in their areas of expertise and state of the art.
- ° Capability of managers of these non-operational cadres to encourage voluntary retirement at appropriate combinations of age and service compatible with organizational needs.

(b) CSRS Employees Supporting Operational Activities

As previously cited earlier in this section serious problems currently exist as regards those Agency CSRS-covered employees who are serving in support of operational activities.

The managerial problems are of two dimensions. The first is the obvious inequity of CSRS and CIARDS-covered employees serving in the same locales under the same stresses and hazards but with different benefit protections.

The second is the need to establish fully secure mechanisms for protecting identities of sensitive CSRS personnel during their employment and post-employment years and to assure secure processing of casualty benefits which now must be processed through non-CIA controlled channels.

IV. Specific Proposals Which Would Inflict Most Extensive Damage to CIA's Intelligence Capabilities

a. Among the several FY-1986 Budget proposals relative to retirement submitted to the Congress, two proposals, (1) to extend retirement ages for full annuities, and (2) the imposition of severe penalties for early retirement, would inflict grievous damage to the CIA's capability to maintain the essential characteristics and quality of our foreign and domestic work forces required to effectively accomplish critical intelligence requirements of vital importance to the national security of the United States.

The intelligence missions and responsibilities charged to the CIA impose singularly unique combination of work force characteristics, and managerial requisites that are not found in other Federal agencies although some of these factors exist in the FBI, Foreign Service, and the military services.

The CIA, because of the nature of its mission, must prioritize the needs of the Agency and the personal interests of our employees.

Consistent with this concept, CIA management utilizes its retirement system (i.e., CSRS and CIARDS) as primary management tools to effect control over the age and service patterns of employees retention and separation to support the attainment of organizational objective.

To meet these objectives, CIA must maintain a relatively young, competent, vigorous and fully effective work force through its most productive years and a capacity to induce retirement at relatively early ages before continued employment becomes detrimental to the best interests of the Nation.

The current provisions of both CIARDS and CSRS have been fully integrated into the Agency's overall personnel management system providing the needed managerial flexibility and control that produce predictable patterns of retirements.

This base then permits the establishment of definitive recruitment need, individual employee development, timely employee advancement, and replacement planning.

V. Aggregate Impacts on the CIA Should All of the Retirement Proposals be Imposed on the CIA

As previously stated, imposition of the proposals to extend retirement ages for full annuities and install service penalties for early retirement would essentially destroy the Agency's capability to maintain the type of work force required to attain organizational objectives. The composite effect of all of these proposals are expected to produce a sequence of other negative results as follows:

- a. Loss of many of our more senior and most valuable employees now eligible for retirement. Of the Agency's Senior Intelligence Service (SIS) level officers (equivalent to the Senior Executive Service in other agencies) 39 percent

are now eligible for retirement with an extremely higher percent of the Operations Directorate officers eligible (66 percent). These are the top managers and most senior substantive officers in the Agency's operational, analytical, high technology, and support areas. There is serious concern that many of these eligibles will elect to retire in larger numbers in compressed time frames as they foresee succession prospects fade as more senior, non-eligible incumbents extend their departure dates to future years.

The "feeder" group for the SIS cadre comes from the GS-15 and GS-14 level officers pool. There are approximately 16 percent of our GS-14 and GS-15 officers now eligible to retire (29 percent in Operations Directorate). This overall number of eligibles may appear relatively low but within these numbers are a very high percentage of employees in relatively critical occupational areas in each of the directorate.

b. Institution of early retirement penalties will severely reduce the future flow of retirements and create blockages of developmental assignments and dry-up promotion headroom.

c. Loss of the most promising of our mid-level and younger officers who would seek careers elsewhere when blockages for assignments and advancement occur.

d. Increased turnover in the ranks of intelligence personnel will make it increasingly difficult to safeguard national security information.

e. Elimination of the strongest inducements for recruitment, the ability to offer--in return for service in demanding and often unique circumstances--the prospects of a career with reasonable developmental opportunity, timely promotions, and retirement with non-reduced annuities at a relatively young age.

VI. Conclusion

- ° Imposition of extended retirement ages and early retirement penalties would severely damage CIA's effectiveness and the expertise and skill of the work force.
- ° Would destroy young and vigorous work force as we know it.
- ° Potentially stand to lose significant portion of existing senior management and feeder groups.
- ° Immoral to force those people out who essentially feel they have a work lifetime contract for protection of their retirement benefits.
- ° It is essential to the national security interests of the U.S. that the Nation's intelligence capabilities be strengthened in these critical times.
- ° In CIA, the retirement provisions of current CIARDS and CSRS, particularly early retirement without annuity reduction, are critical to maintenance of full capability to merit requirements.